



Office of Health Plan Administration

P.O. Box 720724

Sacramento, CA 94229-0724

Telecommunications Device for the Deaf, 1 (800) 735-2926; (916) 795-3240

Toll Free: (888) 225-7377 or 1 (888) CalPERS

FAX (916) 795-4105

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AGENDA ITEM 4d

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Pharmacy Benefits: Implications of Cost Trends, Generic Use and Medication Compliance
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. BACKGROUND:**

The CalPERS Health Benefits Program has been successful in the development and delivery of cost efficient quality health care services to members. The Health Care Decision Support System (HCDSS) tool supports CalPERS staff in monitoring health care cost and utilization, measuring health and wellness outcomes and negotiating health premiums.

This report is the second in a series outlined to the Health Benefits Committee in December 2008.

V. ANALYSIS:

Overall prescription drug program statistics

Staff evaluated prescription drug data for the period of 2004 -2007 to identify significant variation in utilization. The data revealed moderate growth in members using the pharmacy benefit and member cost share as reflected by the copayment. Comparatively, there was significant growth in the CalPERS cost of the prescription benefit. It is important to understand that during this time period CalPERS has assumed most of the cost burden from increased utilization and inflation.

Cost trend

Staff examined the cost trends from 2004 to 2007 for generic and brand drugs to evaluate the impact of each on the pharmacy program. Using the average wholesale price (AWP) as the indicator for inflation it is clear that the inflation rate for brand drugs increased faster than the inflation rate for generic drugs. CalPERS cost for brand was higher than inflation and the cost for generic was much lower than inflation. Manufacturers' price increases, combined with a static

copayment, drove the trend for brand drugs during this time period. The favorable generic cost reflects aggressive plan discount and increased generic availability and use.

Generic use

Brand medications come off patent on a regular basis. Staff evaluated the effect of brand conversion to generics on the prescription drug program from 2004 to 2007; during this time period generic dispensing increased by 18 percent while brand dispensing decreased by 23 percent. CalPERS' health care partners continue to work diligently to promote the use of generics.

Specialty drugs

Specialty drugs treat serious or chronic medical conditions; they are typically injected and can be self-administered. These drugs are high cost because they are biologic (grown in a laboratory as opposed to being chemically synthesized) and may require special handling, distribution, and close monitoring. Staff evaluated the use of specialty drugs on the prescription drug program. The analysis showed that in 2007, specialty drugs were less than one percent of all CalPERS prescriptions, but represent 10 percent of the overall drug spend. CalPERS cost increased 44 percent (about \$30 million) while the member cost share rose three percent from 2004 to 2007. CalPERS should continue its efforts to support federal legislation for biosimilar medications because of the high cost and growing use.

Wal-Mart effect: low-priced maintenance meds

In September 2006, Wal-Mart Corporation launched a generic drug program which offered selected generic drugs at \$4 (acute) or \$10 (maintenance). While this initiative generated a lot of media attention the overall impact to the CalPERS program appears to be very small compared to the total drug spend.

Maintenance medication compliance

Medication compliance is important in maintaining the health of CalPERS members with chronic conditions. Staff studied medication compliance and associated costs for hypertensive and diabetic patients. This analyses reveals that non-compliant patients have significantly higher health cost (medical and pharmacy) than compliant members. While CalPERS members have higher compliance rates than the national average, the challenge is to find ways to help our non-compliant members.

Summary

- Overall, the CalPERS pharmacy benefit program has a low cost trend, despite inflation and increased utilization.
- The cost trend for generics is below inflation, while the trend for brands slightly exceeds inflation.
 - Generic utilization continues to grow.

- Specialty drugs comprise less than 1 percent of prescriptions, but drive 10 percent of overall drug spend.
 - Plan share of cost has increased; member share is flat.
- Some members have taken advantage of low-priced generic drugs – the “Wal-Mart Effect” – little impact on overall drug spend.
- Maintenance medication compliance is good for patients with chronic conditions.
 - Non-compliant patients have significantly higher medical costs.

VI. STRATEGIC PLAN:

This agenda item relates to Strategic Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

This is an information item only.

Ellen Badley, Chief
Office of Health Plan Administration

Gregory A. Franklin
Assistant Executive Officer
Health Benefits Branch

Attachment